

**TESTIMONY OF BOB ROWE IN SUPPORT OF HB 641**

Mr. Chairman, I am Bob Rowe, CEO of Northwestern Energy, 40 East Broadway, Butte Montana. NorthWestern Energy supports HB 641, which will be an important, measured, and flexible step in continuing to rebuild sound energy policy in Montana after a significant, some of us would say tragic, detour. I am a big fan of the bill's sponsor, and appreciate his leadership in this area.

I will provide some relevant background about NorthWestern Energy, explain why I believe the bill helps move us collectively in the right direction, and describe how HB 641 complements and enables other initiatives in a way that will help us flexibly manage change and adjust to what we learn and what our customers expect.

**Two Faces of NorthWestern Energy**

There are two faces of NorthWestern Energy: Outside of our service territory, we are considered small. As a "small cap" company (market capitalization below \$2 billion), some investors have limits on whether or how much they can invest in us. As a company that serves a largely rural area, we are not widely known. I meet with financial analysts, investors, or credit ratings agencies every month. I quickly learned that I am telling the story not only of NorthWestern, but of our service territory, including Montana. Despite the economic downturn, we are making progress on both fronts: We are seeing greater support for NorthWestern and greater confidence that Montana can be a good place to do business. For companies that have significant initiatives in energy efficiency, the financial community views "decoupling" of a portion of revenue from the amount of energy sold as a way to make the investor more neutral to these initiatives.

Within our service territory, we're not small. We are instead a valuable resource for the communities we serve. We have over 1,000 employees in Montana, nearly half are union members. They live in fifty communities around the state, where provide unique sets of skills, and contribute to their communities in countless ways. They work with energized power lines, pressurized gas systems, and cutting edge technology. They help our customers meet their most important needs on a daily basis. Our capital investments, maintenance budgets, and payrolls are for the most part expended directly

where we serve. We pay over \$77 million in Montana property taxes. We work with 130 Montana contractors. Because energy efficiency programs are relatively labor intensive, we typically work with contractors to evaluate and install efficiency measures, so energy efficiency really is an investment back in the community.

Despite the current economic downturn, we have recently experienced peaks on our electric and gas systems. We had a single day peak on our electric system in December (1802 mw), and are experiencing significant increases in our summer loads. On the gas side, we had a one-month record of 5.9 bcf delivered to our Montana customers. Demand for energy services, from technology applications to electric vehicles, is expected to grow, so now is the time to ensure that growing demand is met as cost-effectively as possible.

We have all learned the value of effective, regionally-focused private sector institutions. I am proud that NorthWestern Energy is renewing that commitment. HB 641 will help further that approach.

### **Aligning Policy Goals, Regulatory Practices, and Business Interests**

There really is no argument against well designed and executed efficiency programs as the most cost-effective resource. Through the late 1980s and into the early 1990s, the Montana Power Company was a regional and national leader in energy efficiency. Bill Thomas, who directs our extensive set of efficiency programs, has great experience developing and operating good programs for our residential, commercial, and industrial customers, as well as for public-sector and non-profit sector customers. He is on-hand if you have any specific questions about what we are doing and can do in the future. We are eager to expand these programs because they provide great benefits to our customers and our communities.

Since being on the job at NorthWestern, and indeed for many years before, I described the basic challenge as aligning public policy goals, with sound regulatory practices, with the regulated companies' business interests. I also emphasized that all parties had to be able to look long-term, not short-term. Concerning energy efficiency, I want the company to be able to be as excited about growing our energy efficiency

programs – over the long-term - as we are about any other sound investment we make in our system.

In 2006, the *National Action Plan for Energy Efficiency*, sponsored by the U.S. Department of Energy with participation from over fifty private and public sector expert organizations, identified challenges including the need for investment in utility infrastructure, environmental concerns, and vulnerability to disruptions (p. ES-3), and concluded energy efficiency could be an important part of tackling these problems. Achieving this would require balancing efficiency with new generation and supply options (p. ES-1). It would take “concerted efforts by all energy market participants.” (ES-1). Importantly, it would be necessary to “modify policies to align utility incentives with the delivery of cost-effective practices to promote utility investments” (ES-8), including eliminating disincentives and adopting incentives for successful programs. HB 641 lays out a framework through which these practices can be implemented, based on the best experience from around the region and the country, and with approaches tailored to the circumstances in Montana and the needs of our customers.

### **Enabling a Flexible Approach to Cost-Effective Efficiency Acquisition**

HB 641 sets out a framework for the on-going analysis and pursuit of cost-effective energy efficiency. The bill provides guidance to the Public Service Commission with sufficient clarity, but also flexibility in implementation. The bill also provides for cost recovery of prudent expenditures, utility-specific decoupling measures, and focused performance incentives. NorthWestern Energy is actively evaluating approaches from around the country, as there is now significant experience in many states. Following up on the energy policy summit we co-sponsored in January, we are also establishing stakeholder working groups on areas including infrastructure investment (including rural infrastructure); technology deployment (including “smart grid”); and public policy, which will emphasize strategies to support cost-effective energy efficiency investments.

We are also eager to expand our work with our larger customers, many of whom are facing significant capital constraints, and potentially could achieve overall economic benefits from strategies designed to meet their specific needs.

In conclusion, I have a history of opposing big, "bet the farm" energy policy initiatives. I support approaches that allow us to move forward flexibly, based on sound analysis and an appreciation of the "facts on the ground" that affect both the company and our customers. At NorthWestern Energy, we take seriously our commitment to serve all of our customers. We believe HB 641 provides a reasonable, flexible framework that will help us best meet these responsibilities. Energy efficiency is the right thing to do and we are doing our part.

# about...

EXHIBIT 3  
DATE 3/23/09  
HB 641

## NORTH WESTERN ENERGY



### Providing a Valuable Service

*"By national comparisons, NorthWestern is a relatively small utility. It is a regionally-focused, fully regulated, pure utility."*

*- Bob Rowe, President and CEO*

**N**orthWestern Energy is a "small cap" company serving approximately 650,000 customers in Montana, South Dakota and Nebraska. Compared nationally, NorthWestern is a relatively small utility that is entirely regulated.

NorthWestern is dedicated to providing safe, reliable electric and/or natural gas service to 349 communities.

This document summarizes the Company's service in Montana. If you want to know more about NorthWesternEnergy, log-on to [www.northwesternenergy.com](http://www.northwesternenergy.com). You can find the latest Company news, download reports, learn ways to make your home or business more energy efficient, sign up for services, and much more.

### Montana Investment

Total Assets (company-wide)	\$2.8 billion
Montana Total Assets	\$1.9 billion
Total Capitalization (company-wide)	\$1.8 billion
Montana Capital Investment (2008)	\$97 million
Montana Non-Payroll Expenditures (2008)	\$110 million

### Montana Employees

Montana Employees	1,035
Montana Payroll	\$80 million
Montana Employee Locations	53 communities
Union Employees	421
Union Contractors (used on major projects)	131
Estimated Number of Union Contractor FTEs	150
Estimated Union Contractor Payroll	\$14 million
Montana Retirees	1,200
Estimated Annual Montana Pension Payments	\$15 million

- ◆ Half of the executive team live in Montana, including the CEO
- ◆ Company operations center, network control center, customer call center and other key facilities are located in Butte

### Montana Commitment

Montana Property Taxes (2008)	\$77 million
Charitable Contributions (2008)	More than \$1.1 million

- ◆ \$500,000 through local, employee-run committees
- ◆ \$500,000 to Montana fuel bill assistance, weatherization, and food banks
- ◆ Monthly employee-led charitable giving campaigns
- ◆ Employees are community leaders and volunteers throughout our region

## Montana Operations Quick Facts

### Electric Service

332,500 customers in 187 communities

7,000 miles of transmission lines

21,000 miles of distribution lines

30% ownership in Colstrip 4 is rate regulated and dedicated to serving our customers (meeting 25% of their electricity needs)

Best-in-region 8.5% of electricity from wind/renewable

Opportunity to ramp up cost-effective wind with Mill Creek Generating Station providing stability on our distribution network

Expanding electric and natural gas energy efficiency programs

Investment in critical infrastructure to keep Montana strong and help it grow

### Natural Gas Service

179,200 customers in 105 communities

4,000 miles of distribution pipelines

2,000 miles of intrastate transmission pipelines

16.2 Bcf (billion cubic feet) of gas storage

### Programs and Services

- ◆ Retail (service to end-use customers such as homes and businesses) electric and natural gas distribution, transmission and supply services.
  - Over half is rural with an average of only nine customers per mile.
- ◆ Wholesale (service to generators or suppliers for ultimate use by customers) electric and natural gas transmission services.
- ◆ Energy efficiency programs, rebates and incentives for energy efficiency, commercial energy appraisals and renewable activities through participation in the Universal System Benefits and E+ programs.
- ◆ Support to state and federal agencies and non-profits to provide energy assistance to low-income customers.
- ◆ Area lighting services.
- ◆ Extended customer services including online account access, pilot lighting program and appliance inspection program.
- ◆ Dedicated and responsible partners in business retention, business expansion and business creation through Economic Development resources.



**NorthWestern**  
Energy

*Delivering a Bright Future*